Study on the Choice of Development Mode of Financial Holding Company in China

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Abstract: With the continuous development and improvement of our market economy, financial holding companies are developing and upgrading constantly. With the change of financial environment, the advantages and disadvantages of financial holding companies in the process of development are increasingly prominent. The exploration of business mode has been a key issue in the industry, which has also been concerned and taken seriously by the vast number of professionals. This paper firstly explains the essence and concept of financial holding companies, combining with their current situation and development direction in our country, makes a related analysis and puts forward some suggestions on the choice of development mode.

1. Introduction

With the continuous development of economy and the constant change of domestic economic environment, the development mode and business thinking of financial holding companies are also undergoing constant adjustment and improvement. Through constant thinking and practice, the advantages and potential risks of Chinese financial holding companies in the course of operation have been deeply understood and fully understood by the industry, based on which, they have a certain mastery degree of the development law of financial holding companies, putting forward a lot of valuable suggestions to the development mode.

2. Essence of Financial Holding Company

Financial holding company means that under the same control, the affiliated subject is at least obviously engaged in more than two kinds of banks, securities and insurance business, while the capital requirements for each type of business are different. The financial holding company is a diversified enterprise with three main features. Firstly, group holding and joint operation. It takes a holding company as a parent and adopting a joint operation strategy, the economic resources, human resources and even business resources are combined into one operation project, and the production and operation operation is jointly produced and operated. While the most abundant material resources and the most advanced equipment resources are collected, so as to reduce the cost of production and operation while improve the efficiency. Secondly, separate legal persons to avoid risks. Different businesses of financial holding companies are operated by different legal personsto take risks respectively. The intention is to effectively control the scope of financial risks, to guarantee the safe and stable operation of more business, to control the adverse effect within the lowest scope, and to improve the control ability and anti-risk ability of companies’ business. Thirdly, consolidate financial statements, with each bearing their own negative profit and loss. In this way, it is possible to effectively prevent the repeated calculation of profit and loss between each business or the molecule company, and at the same time guarantee the balance among various business modules, effectively avoid the existence and development of some high-risk projects by controlling risk, and control and supervise the potential risks in the operation process.

The financial holding company has several more obvious advantages. Firstly, to realize the diversification of business operations, effectively avoid the spread of risks while enriching the business types, and ensure that the other businesses are not affected as much as possible. on the basis of enriching the income structure and adding the business type, it is aimed to create a
diversified and multiaspect income mode for enterprises, and the risk control can be in a range that can be borne and can be redeemed, so that the business of the whole company will not be affected. Even if a large financial impact is faced, it is possible to take corresponding measures to make a timely remedy or stop loss. Secondly, the operation mode of financial holding company is conducive to the timely and flexible regulation of business and financial situation. Since different legal persons are in charge of operation and management among various businesses, and the modes of financial consolidation with each bearing their profit and loss are adopted, the supervision of each business project and financial movement is extremely strict and timely. Meanwhile, the selection of operation mode and the control of risks are more flexible, which avoids the disadvantages of single service type in operation and supervision, and facilitates the development of various businesses. Finally, the operation mode of financial holding company is beneficial to the allocation and operation of funds. As long as they are in line with the provisions of relevant departments and laws, it is possible to reasonably allocate funds or perform capital operation in a flexible and diverse way, save time to a certain extent, avoid unnecessary waste of time and resources, maximize the effect of capital operation and provide the most convenient conditions for subsequent capital import and financing, etc.

Of course, the financial holding company’s mode has a certain potential risk. In spite of the independent operation between various businesses and the liability of their respective legal persons, it is still impossible to avoid the occurrence of conflict or the phenomenon of insider trading in the course of operation. There is unavoidable mutual influence between operations. Once the financial risk is not effectively controlled, it may spread to other businesses, resulting in a range of economic losses, thereby reducing company’s ability to withstand financial market shocks and shocks.

3. Current Situation and Deficiency of the Development of Financial Holding Company in China

Although our country has gone through a long period of exploration and time, because of the late start time of financial holding company in our country, there is a big gap between our country with other countries and it still stays at a relatively junior stage. The development of financial holding company has various shortcomings.

In the relevant legal and regulatory mechanism, financial holding company of our country has a great improvement and perfect space. As early as the end of the 20th century, the United Kingdom, Japan, the United States and other countries have promulgated and adopted relevant laws and regulations on the management and operation of financial holding company, as well as established the regulatory policy and management specifications of related businesses. Under the relatively sound laws and policies, financial holding company has been able to get good survival and development in the above countries, and effectively avoid some disputes. Compared with these countries, China has not established a relatively perfect system of legal supervision, and no clear policy and mechanism. There is an obvious time-effectiveness gap in the way of standardized management and operation, which makes it not enough to meet the development of modern financial holding company and to provide a healthy development environment for the development of modern financial holding company. Aiming at the above problems, our country is advised to refer to the advanced experience and the control method of other countries, combine the actual situation of the country, fill the gap in the law and policy, and improve the current situation of the lack of normative guidance and restraint, providing practical management basis and legal guarantee for the development of financial holding company.

In the control of risk, financial holding company of our country has a big shortage. There are a lot of advantages in other countries that should be studied by China’s financial holding company. The management idea of financial holding company lies in the separation of each business item from its own profits and losses so as to establish different legal persons to supervise and manage its operation and financial position. Once a project suffers financial crisis or needs to bear a greater risk, it is possible to control the scope of the impact in a timely manner, effectively stop the loss, and control the impact of crisis to a single project as much as possible. However, during the actual
operation process, there will be unavoidable mutual influence between various businesses, such as internal transaction, etc., without timely and effective control. Therefore, the ability of risk control is slightly weak, and the scope of risk impact is not to be effectively controlled as expected.

In the strategic thinking, there is a problem that the positioning is not clear and the management idea is not sound. The competition in the market environment of financial industry is so intense that the formulation of development strategy and definition are of vital importance to financial holding company. After long-term practice and exploration, many developed countries have made clear management idea, that is, to provide one-stop service, fully integrate the resources of the group, maximize the effect, attract more customers and provide customers with the service of the system. However, many financial holding companies in our country do not have a clear management idea, no definite idea on the problem of client and no strategic plan which takes customers as the center, bearing a big gap with developed countries.

In order to find out the causes of the above problems, we can analyze from the angle of history, system and the intrinsic attributes of financial institutions and so on. First of all, the system of planned economy has been implemented over a long period of time in our country, which is very limited to the activity of market economy and is also disconnected from the international environment. In such an environment, financial institutions often lack sufficient funds and do not have sufficient capacity to develop industry and enrich business type. Because of a lack of contact with other countries, it is not possible for us to absorb the advanced management experience and thinking in time. Therefore, From the perspective of historical reasons, financial holding company of our country has a relatively weak base. Although the market economy of our country has made constant development in recent years, separation of businesses still remains a statutory principle, and the interaction and influence of financial institutions are limited by the regulations and system of the state. Therefore, financial holding company has to take steps to avoid risks and fail to conduct more active and diversified business exchanges.

4. Selection of the Development Mode of China’s Financial Holding Company

Through the above discussion, we have made a thorough understanding of the development process and advantages of financial holding company, as well as the potential risks. In view of the development of financial holding company of our country, we have found all kinds of problems and summarized the causes. In the light of the above, it is considered that pure financial holding company is an ideal development mode.

The parent company of pure financial holding company does not have its own special financial field, whoes establishment aims to control the subsidiaries’ shares and engage in the pure equity investment income activity. Pure financial holding company can reasonably allocate limited resources to the maximum extent, and realize higher economic value by combining and optimizing the resource structure, so as to play the biggest role of the financial resources and achieve higher economic value with lower cost.

At the same time, pure financial institution can better adapt to the existing economic system and market situation of our country, make more reasonable operation and operation under the guidance of current policies and regulations, and is the choice which can adapt to the financial supervision system of our country and the existing national conditions. It has the characteristic of clear level in the ownership structure, and the capital between subsidiaries can be regulated clearly and can not be held with each other, so that the repeated calculation of capital will be avoided, and the development degree of current Chinese financial market can be effectively combined, which becomes in line with that level of market economy. In addition, it is more important that pure financial holding company can effectively control risks and form a relatively safe basis, so that the capital risk within the group can be controlled in the minimum category. Even if the problems of capital shock and the like occur, the influence range will be stopped and reduced in time. The independent legal person is responsible for the operation and management of independent project among the business of pure holding company, which provides the guarantee for the security of group capital, prevent any flow of funds, avoid the mutual influence between various project risks,
allow the group to develop healthy and keep Table development, and maintain the stability of group capital operations in a way that avoids and reduces the risk effects. In the absence of an effective risk control and supervision system in our country, pure financial holding company has more tenacious vitality and is more able to adapt to the existing market economy system and financial development level.

5. Conclusion

In view of the above, financial holding company has been growing rapidly under the current market economy system and financial environment of our country. Moreover, the thinking on the operation mode and development direction of financial holding company is becoming more and more mature and perfect. After a long time of research and practice, the advantages of financial holding company and potential risks in the course of development have been fully recognized. How to combine the actual situation of domestic economic market, and how to find the development mode which is real suitable for financial holding company are hot topics in the industry as well as one of the issues that deserve to be paid attention to. From a long-term view, we need to improve the system of financial market, create a good economic environment, optimize the market structure, keep a sober mind and keen insight, really play the advantage of financial holding company, and create more persistent economic benefits.

References


